INVESTMENT COMMENTARY

Despite signs of a slowing economy, market sentiment turned extremely bullish during the first quarter. The U.S. stock market erased most of the losses from the prior quarter and the bond market produced strong returns as interest rates declined, while credit spreads tightened. The Federal Reserve changed course and did not raise the Fed Funds rate like they had every alternating meeting since December 2017. Instead, the Fed signaled pause mode during the quarter and cited slowing economic growth, slower household spending and slower investment. China and the US continue to work on details of a trade agreement to move beyond the temporary truce and avoid an escalated trade war centered on intellectual property rights, access to the Chinese market and the trade imbalance.

Against this backdrop, the 2-year Treasury yield declined 23 basis points to 2.26%, while the yield on the 10-year Treasury decreased by 27 basis points to 2.41%. The drop in interest rates led to a 2.11% Treasury sector quarterly return. Investment grade sector spreads tightened during the quarter leading to strong absolute returns for investment grade corporate bonds (+5.14%), Agency Securities (+2.54%), Mortgage-backed Securities (+2.17%) and Asset-backed Securities (+1.48%). High Yield corporate bonds rebounded even stronger and returned (+7.26%) for the quarter.

The PIA long-term economic outlook continued to trend negatively through the first quarter. However, our 2019 calendar outlook improved modestly following the substantial January pivot by the Fed, shifting from a projected two or more rate increases in 2019 to the potential for a rate cut. The markets responded bullishly to the Fed's dovish pivot, adding to the market optimism for a potential trade resolution with China, as well as strength in the dollar, the significant rebound in oil and the CRB commodity index, reported full employment and minimal signs of inflation risk. For the past several quarters, we've referenced our concern that potential fiscal and/or monetary policy mistakes represent the greatest risks to an otherwise solid, slow-growth, low-inflation economy. We remain skeptical that the U.S. will benefit materially from a successful trade deal with China in 2019. Additionally, we don't entirely share the market's enthusiasm for the Fed's pivot, as we have questions about the efficacy of a Fed more market-driven than policy-driven. We continue to monitor several key economic indicators as many are currently trending downward including housing, consumer confidence, corporate profitability, economic growth, inflation and new business start-ups. The Pending Home Sales Index continued its decline from 109.8 at the beginning of 2018 to 101.9 through February. Coincidentally, there is a strong historical correlation between peaks in the housing and business cycles. The Consumer Confidence Index dropped from 128.1 at year-end to 124.1 and GDP and inflation appear to be trending below 2%.

The global economy continues to face political and economic headwinds, most notably in China and the Euro region. The eight-month trade war continues to negatively impact U.S. consumers and corporate profits, while slowing global growth and a strong dollar continue to weigh on U.S. exports. We believe global economic weakness will sustain downward pressure on interest rates and keep rates low, even if the U.S. economy can again achieve compartmental growth. The level of negative interest rates and the overall demand for U.S. Treasuries worldwide should continue to outweigh the relative shrinking supply of U.S. long term debt. However, if a flat or inverted yield curve persists, it would likely portend greater U.S. economic weakness, which should also lead to greater credit risk and commensurate spread widening. Currently, in spite of the demand-supply imbalance for U.S. bonds, there is little relative value on the long-end of the yield curve. Therefore, we remain cautiously short in overall portfolio duration. However, we've utilized the strong current demand for corporate bonds to begin selectively de-risking our credit holdings.

We continue to maintain our modestly short duration position relative to our respective benchmarks and consistent with our outlook for robust Treasury issuance and moderating yet positive economic growth. We utilized the strong rebound in credit to reduce our BBB credit exposure. As corporate spreads have become less attractive, we maintain a modest corporate overweight focusing on high quality balance sheets, while we measure the risks of persistent economic weakness. Our credit sector selection focuses on Industrials that provide incremental risk-adjusted yield and high-quality, domestic, senior Financial credits that we believe offer attractive compensation for the sector volatility. For Core Plus clients, we took advantage of the strong high yield rally to reduce our exposure to high yield credit. Lastly, we maintain a modest overweight to Agency Mortgage-backed Securities, as the MBS sector continues to offer value on a risk-adjusted basis.

PIA Investment Strategy Group

KEY **RATES**

	3/31/19	12/31/18	3/31/18
Fed Funds Target Rate	**2.25 - 2.5%**	**2.25-2.5%**	**1.5 - 1.75%**
3 Month LIBOR	**2.60**	**2.81**	**2.31**
On-the-run Treasuries:			
3 Months	**2.38**	**2.36**	**1.70**
6 Months	**2.42**	**2.48**	**1.91**
2 Years	**2.26**	**2.49**	**2.27**
5 Years	**2.23**	**2.51**	**2.56**
10 Years	**2.41**	**2.68**	**2.74**
30 Years	**2.81**	**3.02**	**2.97**

Source: Bloomberg

KEY **ECONOMIC INDICATORS**

as of	3/31/19	3/31/18
U.S. $ (DXY)	**97.28**	**89.97**
Oil	**60.14**	**64.94**
Gold	**1,292.30**	**1,325.00**
CRB	**183.75**	**195.36**
GDP	**2.9**	**2.9**
CPI	**1.5**	**2.2**
Core (Ex - Food & Energy)	**1.8**	**1.6**
Unemployment Rate	**3.8**	**4.1**
Consumer Confidence	**124.10**	**127.70**
S&P/Case-Shiller – Comp-20	**3.58**	**6.40**

Source: Bloomberg

INDEX **RETURNS**

	1Q'19	YTD	1-Year
Bloomberg Barclays –			
Universal	**3.32%**	**3.32%**	**4.53%**
Aggregate	**2.94**	**2.94**	**4.48**
Aggregate ex-credit	**2.15**	**2.15**	**4.32**
Gov-Credit	**3.26**	**3.26**	**4.48**
Int. Gov-Credit	**2.32**	**2.32**	**4.24**
Corporate	**5.14**	**5.14**	**4.94**
Treasury only	**2.11**	**2.11**	**4.22**
1-3 year Gov	**0.99**	**0.99**	**2.74**
BofA Merrill – 1-yr T-Note	**0.82**	**0.82**	**2.44**
High Yield	**7.26**	**7.26**	**5.93**
International Debt	**1.52**	**1.52**	**-4.13**
Emerging Markets Debt	**5.43**	**5.43**	**4.38**
S&P 500	**13.65**	**13.65**	**9.48**
DJIA	**11.81**	**11.81**	**10.03**
NASDAQ 100	**16.89**	**16.89**	**13.36**
MSCI EAFE	**10.15**	**10.15**	**-3.20**

Source: Bloomberg Barclays

SECTOR **RETURNS**

1Q'19	Total Return	Excess Return
U.S. Treasuries	**2.11%**	**0.00%**
Government-related U.S. Agency	**3.11**	**1.17**
Government-related Credit	**3.49**	**1.45**
Corporate	**5.14**	**2.73**
Corporate Financials	**4.61**	**2.57**
Corporate Industrials	**5.50**	**2.95**
Corporate Utilities	**4.57**	**1.56**
Corporate AAA-rated	**5.01**	**1.83**
Corporate AA-rated	**3.69**	**1.57**
Corporate A-rated	**4.70**	**2.29**
Corporate BBB-rated	**5.73**	**3.28**
Corporate High-Yield	**7.26**	**5.73**
Securitized	**2.22**	**0.34**
Mortgage-backed Securities-FR	**2.17**	**0.28**
CMBS	**3.24**	**1.18**
ABS	**1.48**	**0.40**

Source: Bloomberg Barclays

Pacific Income Advisers, Inc. (PIA) is an autonomous investment management firm registered under the Investment Advisers Act of 1940. PIA manages a variety of fixed income, equity, and balanced assets for primarily United States clients.

BENCHMARK DESCRIPTION

Bloomberg Barclays U.S. Universal Index represents the union of the U.S. Aggregate Index, U.S. Corporate High-Yield Index, Investment-Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment-grade or below investment-grade. Some U.S. Universal Index constituents may be eligible for one or more of its contributing subcomponents that are not mutually exclusive. These securities are not double-counted in the index. You can not invest directly in an index.

Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index that covers the investment grade fixed rate bond market with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The issues must be rated investment grade, be publicly traded, and meet certain maturity and issue size requirements. You can not invest directly in an index.

Bloomberg Barclays U.S. Aggregate Ex-Credit Index (LB Agg (Ex-Credit)) The index covers the U.S. investment grade fixed rate bond market, with index components for government, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. You can not invest directly in an index.

Bloomberg Barclays U.S. Government/Credit Bond Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. You can not invest directly in an index.

Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index is the Intermediate component of the U.S. Government/Credit index. The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. You can not invest directly in an index.

Bloomberg Barclays U.S. 1-3 Year Government Bond Index consist of securities in the U.S. Government Index with a maturity from 1 up to (but not including) 3 years. Securities issued by the U.S. Government (i.e., securities in the Treasury and Agency Indices). Inclusions: Public obligations of the U.S. Treasury with a remaining maturity of one year or more. Publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government. You can not invest directly in an index.

Bloomberg Barclays U.S. Treasury Index includes public obligations of the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. STRIPS are excluded from the index because their inclusion would result in double-counting. Securities in the Index roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices. You can not invest directly in an index.

Bloomberg Barclays U.S. Corporate Bond Index covers USD-denominated, investment-grade, fixed-rate, taxable securities sold by industrial, utility, and financial issuers. It includes publicly issued U.S. corporate debentures and secured notes that meet specific maturity, liquidity, and quality requirements. Securities in the index roll up to the U.S. Credit and U.S. Aggregate indices. The U.S. Corporate Index was launched on January 1, 1973. You can not invest directly in an index.

BofA Merrill Lynch 1-Year US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury note that matures closest to, but not beyond, one year from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date. You can not invest directly in an index.

Bloomberg Barclays Corporate U.S. High Yield Index - covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The Yankee sector has been discontinued as of 7/1/00. The bonds in the former Yankee sector have not been removed from the index, but have been reclassified into other sectors. You cannot invest directly in an index.

Bloomberg Barclays Global Aggregate Index provides a broad-based measure of the global investment-grade fixed-rate debt markets. The Global Aggregate Index contains three major components: the U.S. Aggregate Index (USD 300 million), the Pan-European Aggregate Index (EUR 300 million), and the Asian-Pacific Aggregate Index (JPY 35 billion). In addition to securities from these three benchmarks (94.4% of the overall Global Aggregate market value), the Global Aggregate Index includes Global Treasury, Eurodollar (USD 300 million), Euro-Yen (JPY 35 billion), Canadian (CAD 300 million), and Investment-Grade 144A (USD 300 million) index-eligible securities not already in the three regional aggregate indices. The Global Aggregate Index family includes a wide range of standard and customized subindices by liquidity constraint, sector, quality, and maturity. The Global Aggregate Index is a component of the Multiverse Index. You can not invest directly in an index.

Bloomberg Barclays Global Emerging Markets Index consists of the fixed and floating-rate USD-denominated U.S. Emerging Markets Index and the primarily EUR and GBP-denominated fixed-rate Pan-European Emerging Markets Index and includes emerging markets debt from the following regions: Americas, Europe, Asia, Middle East, and Africa. For the index, an emerging market is defined as any country that has a long term foreign currency debt sovereign rating of Baa1/BBB+/BBB+ or below using the middle rating of Moody's, S&P, and Fitch. The index does not overlap with the U.S. Corporate High-Yield Index or the Pan Euro Corporate High-Yield Index, but may overlap with other investment-grade Aggregate Indices if the securities meet their index eligibility rules. You can not invest directly in an index.

S&P 500 Index – The S&P 500 index includes 500 leading companies in leading industries of the U.S. economy. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. You can not invest directly in an index.

The NASDAQ-100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No security can have more than a 24% weighting. The index was developed with a base value of 125 as of February1, 1985. Prior to December 21, 1998 the Nasdaq 100 was a cap-weighted index. You can not invest directly in an index.

The Dow Jones Industrial Average (DJIA) is an index used to measure the performance of the U.S. financial markets. Introduced on May 26, 1896 by Charles H. Dow, it is the oldest stock price measure in continuous use. Over the past century "the Dow" has become the most widely recognized stock market indication in the U.S. and probably in the entire world. Most of the stocks included in the index are listed on the New York Stock Exchange, and are all large blue-chip companies that reflect the health of the U.S. economy. All but a handful of these have major business operations throughout the world, thus providing some insight into the economic well-being of the global economy. You can not invest directly in an index.

MSCI EAFE Index is a capitalization weighted index that monitors the performance of stocks from Europe, Australiasia, and the Far East. You can not invest directly in an index.

P I A

Pacific Income Advisers

1299 Ocean Avenue Second Floor Santa Monica California 90401

telephone 310.255.4488 facsimile 310.434. 0100

w w w . p a c i f i c i n c o m e . c o m